

Report of the auditor-general to the Gauteng Provincial Legislature and the council on City of Tshwane Metropolitan Municipality

Report on the consolidated and separate financial statements

Introduction

1. I have audited the consolidated and separate financial statements of the City of Tshwane Metropolitan Municipality and its municipal entities as set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2016, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No.1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the City of Tshwane Metropolitan Municipality and its municipal entities as at 30 June 2016 and its consolidated and separate financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 55 to the consolidated and separate financial statements, the municipality is the defendant in a number of legal cases. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 47 to the consolidated and separate financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered in the consolidated and separate financial statements of the City of Tshwane metropolitan municipality and its municipal entities during the year ended 30 June 2016.

Material Impairment

10. As disclosed in note 22 to the consolidated and separate financial statements, trade receivables for the group were significantly impaired as the recoverability of these amounts is doubtful. The allowance for impairment of trade receivables amount to R6 611 529 928 (2014-15: R5 664 049 394) which represents 70,9% (2014-15: 67,9%) of consumer debtors. The contribution to provision for debt impairment was R1 361 170 027 (2014-15: R842 780 281).

Material losses

11. As disclosed in note 60 to the consolidated and separate financial statements, material losses for the group and municipality amounting to R1 347 407 515 (2014-15: R973 512 190) were incurred as a result of electricity distribution losses which represent 19.3% (2014-15: 16.1%) of total electricity purchased. The total technical losses of electricity amounted to R 489 203 973 (2014-15: R424 584 756). Non-technical losses amounted

to R858 203 542 (2014-15: R548 927 434) and are due to unauthorised consumption, tampering and faulty meters.

Additional matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the group and municipality are required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected strategic objectives presented in the annual performance report of the group and municipality for the year ended 30 June 2016:

- Strategic objective 1: Providing sustainable services infrastructure and human settlements management on pages x to x
- Strategic objective 2: Promoting shared economic growth on pages x to x
- Strategic objective 3: Ensuring sustainable, safer communities and integrated social development on pages x to x
- Strategic objective 6: Continuing institutional development, transformation and innovation on pages x to x

16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*.

17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following strategic objectives:

- Strategic objective 1: Providing sustainable services infrastructure and human settlements management.
- Strategic objective 2: Promoting shared economic growth.
- Strategic objective 3: Ensuring sustainable, safer communities and integrated social development.
- Strategic objective 6: Continuing institutional development, transformation and innovation.

Additional matters

19. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected strategic objectives, I draw attention to the following matters:

Achievement of planned targets

20. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

21. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Strategic Objective 6 – Continued institutional development, transformation and innovation. As management subsequently corrected the misstatements, I did not identify any material findings on the reliability of the reported performance information.

Compliance with legislation

22. I performed procedures to obtain evidence that the group and municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

23. The consolidated and separate financial statements submitted for auditing were not prepared in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of property plant and equipment; statement of comparison of budget and actual amounts and disclosure notes identified by the auditors in the submitted financial statements, were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

24. I could not obtain sufficient appropriate audit evidence that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as not all contracts were submitted for auditing.
25. Goods and services of a transaction value above R200 000 was procured without inviting competitive bids, as required by Supply Chain Management (SCM) regulation 19(a).
26. Sufficient appropriate audit evidence could not be obtained that the contract performance and monitoring measures and methods were sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA, as not all contracts were submitted for auditing.

Expenditure management

27. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1) (d) of the MFMA.

Asset management

28. An effective system of internal control for assets was not in place, as required by section 63(2) (c) of the MFMA.

Internal control

29. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

30. The accounting officer and senior management did not adequately perform oversight responsibility over compliance with laws and regulations and financial and performance reporting resulting in material adjustments required on the financial statements and non-compliance with the MFMA and SCM regulations.
31. The municipality developed a plan to address audit findings, but the action plan was not sufficient on key items such as procurement and financial reporting hence it did not yield the required results, which resulted in a number of repeat findings on assets and non-compliance with the MFMA and SCM regulations.

Financial and performance management

32. Effective financial and internal control disciplines were not implemented to ensure fairly presented financial statements. The preparation and review processes were ineffective which resulted in material adjustments to the annual financial statements.

Other reports

33. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

34. The Public Protector is investigating the smart prepaid meter contract. The investigation was initiated based on an allegation of the possible misappropriation of the municipality's assets. At the time of the report, the outcome of the investigation was unknown.
35. Two hundred and twenty six cases of alleged irregularities relating to financial misconduct, fraudulent acts, theft and non-compliance were investigated during the financial year. The majority of these cases were investigated internally by the municipality's forensic department. Of these, 123 have been completed, and the remainder are at either the planning or execution phase.

Auditor-General

Pretoria

31 December 2016



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence